

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
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PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 AGRE-00 /111 W
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TO SECSTATE WASHDC PRIORITY 856
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
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E.O. 11652: NA
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - SEP 1-6

1. SUMMARY: NEW ECONOMIC STIMULUS PACKAGE ANNOUNCED BY
PRIME MINISTER. SPENDING TOTALS, INCLUDING SOME PRIVATE
SPENDING, PLACED AT YEN 2 TRILLION, MOST OF WHICH TO BE
IMPLEMENTED IN FY 77. BANK OF JAPAN CUTS DISCOUNT RATE TO
4.25 PERCENT FROM 5.0 PERCENT. OTHER RATES ALSO FOLLOWING.
GNP RISES 1.9 PERCENT (7.6 PERCENT SAAR) IN SECOND QUARTER.
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OFFICIAL RESERVES UP \$128 MIL IN AUGUST. END SUMMARY.

2. ELABORATING ON THE PRIME MINISTER'S SEPTEMBER 3
ANNOUNCEMENT OF NEW STIMULUS MEASURES, THE ECONOMIC PLANNING
AGENCY (EPA) RELEASED A SEVEN-POINT SUMMARY OF THE ELEMENTS
OF THE PROGRAM. THE SEVEN POINTS GO BEYOND THE SPECIFICS
OF FISCAL PROGRAMS AND INTEREST RATE CUTS TO INCLUDE A

VARIETY OF ADMINISTRATIVE MEASURES PLUS A LIST OF ITEMS TO DEAL DIRECTLY WITH EXTERNAL PROBLEMS. THE SEVEN POINTS CONSIST OF:

A. FISCAL AND FINANCIAL MEASURES: THESE INCLUDE INCREASED PUBLIC WORKS SPENDING OF YEN ONE TRILLION, ADDITIONAL HOUSING LOANS AMOUNTING TO YEN 870BIL, AND YEN 150 BIL OF EXTRA LOCAL GOVERNMENT SPENDING. CUTS IN INTEREST RATES WERE ALSO CALLED FOR.

B. PROGRAMS TO STIMULATE PRIVATE DEMAND: THESE INCLUDE THE PREVIOUSLY ANNOUNCED ACCELERATION OF INVESTMENT BY THE ELECTRIC GENERATING INDUSTRY (SEE TOKYO 12048), PROMOTION OF LARGE-SIZE OVERSEAS INVESTMENTS, AND EASING OF CONSUMER CREDIT.

C. PROGRAMS TO ASSIST ENTERPRISES FACING STRUCTURAL DIFFICULTIES: DETAILS LEFT VAGUE.

D. PROGRAMS TO ASSIST SMALL AND MEDIUM-SIZE ENTERPRISES: DETAILS LEFT VAGUE.

E. RENEWED MEASURES TO EASE UNEMPLOYMENT.

F. PRICE STABILITY MEASURES: PRIMARILY A FOLLOW-UP CAMPAIGN TO SEE THAT COST REDUCTIONS DUE TO YEN APPRECIATION ARE PASSED THROUGH TO CONSUMERS IN THE FORM OF LOWER PRICES.

G. EXTERNAL MEASURES: SPECIFICALLY MENTIONED ARE: ADDITIONAL STOCKPILING OF OIL, ADVANCE IMPORTS OF SOME ITEMS, ENCOURAGEMENT OF YEN BOND FLOTATIONS BY FOREIGNERS, A POSITIVE APPROACH TO THE MTN AND GENERAL ENCOURAGEMENT OF ECONOMIC COOPERATION.

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3. THE PRIME MINISTER PRESENTED HIS PLAN AS COMPREHENSIVE ECONOMIC MEASURES COVERING BOTH THE PUBLIC AND PRIVATE SECTORS AND CONSTITUTING NEW SPENDING OF TWO TRILLION YEN. THE TWO TRILLION PROGRAM CONSISTS OF:

PUBLIC WORKS	YEN 1,000 BIL
HOUSING	YEN 870 BIL
LOCAL GOVTS, PUBLIC WORKS	YEN 150 BIL
TOTAL	ABOUT YEN 2,000 BIL

4. TRANSLATING THE TWO TRILLION YEN PROGRAM INTO SPECIFIC BUDGETARY PROPOSALS IS NOT YET COMPLETE. THE FINANCING SIDE OF THE PROPOSALS, IN PARTICULAR, IS STILL UNSETTLED. HOWEVER, PRESS STOREIS, PARTLY BASED ON PRESS CONFERENCE WITH KEY MINISTRY OF FINANCE (MOF) OFFICIALS, INDICATE THE SUPPLEMENTAL WILL CONTAIN THE FOLLOWING ITEMS:

	BIL YEN
GENERAL ACCOUNT BUDGET	
INFRASTRUCTURE	300
DISASTER RECONSTRUCTION	90
SALARY INCREASES	110 500
FISCAL LOAN AND INVESTMENT PROGRAMS	
HOUSING	280

OTHER CONSTRUCTION	340	620
TOTAL	1,120	

5. IN ADDITION TO THESE SPENDING ITEMS IN THE SUPPLEMENTAL, IT IS RUMORED TO BE LIKELY THAT AN ADDITIONAL YEN 580 BIL WILL BE SPENT BY FLIP IN NORMAL YEAR-END LOANS TO SMALL AND MEDIUM-SIZE BUSINESS AND OTHERS. THIS ADDITIONAL SPENDING DOES NOT REQUIRE NEW DIET APPROVAL AS PROVISION IS MADE IN THE REGULAR BUDGET FOR SUCH INCREASES.

6. THE FINANCING OF THE ADDITIONAL SPENDING IS MORE UNCERTAIN BUT GOVERNMENT OFFICIALS WERE FIRM ON THE POINT IT WOULD NOT REQUIRE THE GOVERNMENT TO ISSUE NATIONAL BONDS IN EXCESS OF LIMITED OFFICIAL USE

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30 PERCENT OF GENERAL ACCOUNT EXPENDITURES. AS CONSTRUCTED BY THE PRESS, THE LIKELY FINANCING PROGRAM WILL CONSIST OF:

FINANCING		
GENERAL ACCOUNT		
NATIONAL BONDS	100	
EXPENDITURE CUTS	200	
DRAWDOWN OF JAPAN DEVELOPMENT BANK AND EXIMBANK		
RESERVES	200	500
FLIP		
POSTAL SAVINGS	600	
RESALE OF NATIONAL BONDS		
HELD IN FLIP PORTFOLIO	300-400	
JAPAN ROAD CORP. GOVT-GUARANTEED DEBENTURES		
	100	
REDUCTION IN OTHER FLIP PROGRAMS		
	100	1100-1200

THIS FINANCING INCLUDES FINANCING OF YEAR-END LOAN PROGRAM CITED PARA 5 ABOVE.

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7. COMMENT: THE TOTALS FOR THE SUPPLEMENTAL AND FOR THE
ANNOUNCED PROGRAM DIFFER FOR SEVERAL REASONS. THE YEN 870
BIL HOUSING PROGRAM IS DESIGNED TO ENCOURAGE CONSTRUCTION
OF 100,000 UNITS. HALF WILL BE FINANCED PRIVATELY AND
HALF PUBLICLY. OF THE GOVERNMENT'S SHARE, ONLY YEN 280
BIL WILL BE ALLOCATED IN FY 77. ALSO YEN 150 BIL OF THE
TOTAL PROGRAM WILL COME FROM LOCAL GOVERNMENT SPENDING
FINANCED BY BOND SALES. THE SPENDING TOTALS IN THE
SUPPLEMENTAL ALSO INCLUDE MONEY FOR PAY INCREASES FOR CIVIL
SERVANTS ALTHOUGH THE EXACT AMOUNT IS NOT YET FINAL.
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AFTER TAKING ACCOUNT OF THE RUMORED YEN 300 BIL OF CUTBACKS
IN OTHER PROGRAMS, IT APPEARS THE NEW GOVERNMENT SPENDING
WILL ADD DIRECTLY TO FINAL DEMAND ABOUT YEN 1,400 BIL IN
THE CURRENT FISCAL YEAR.
THE PROGRAM AND ITS FINANCING HAVE CLEARLY BEEN TAILORED
TO MEET THE CONSTRAINT OF KEEPING NATIONAL BOND FLOTATIONS
TO NO MORE THAN 30 PERCENT OF GENERAL ACCOUNT EXPENDITURES.
IN ANNOUNCING HIS PROGRAM, PRIME MINISTER FUKUDA SAID
IT WOULD ASSURE JAPAN WOULD ACHIEVE THE 6.7 PERCENT GROWTH
TARGET FOR FY 77 THAT HE SET AT THE LONDON SUMMIT. WE UNDER-
STAND THAT DECISION WAS MADE AT LAST MOMENT TO ENUMERATE
MAIN EXTERNAL ELEMENTS IN PRESENT PACKAGE WITH A VIEW TO
MAKING THE PACKAGE AS COMPREHENSIVE AS POSSIBLE AND TO

PUTTING AN END TO ALMOST CONSTANT FIDDLING WITH POLICY.
HOWEVER, ACTUAL IMPLEMENTING MEASURES REMAIN TO BE DECIDED
BY CONCERNED MINISTRIES AFTER FURTHER DISCUSSIONS AND
CONSIDERATION. END COMMENT.

8. BANK OF JAPAN (BOJ) POLICY BOARD ANNOUNCED SEPT 3
CUT IN ITS DISCOUNT RATE BY 0.75 PERCENTAGE POINTS TO
4.25 PERCENT PER ANNUM, EFFECTIVE SEPT 5. BOJ POLICY
BOARD ISSUED FOLLOWING STATEMENT ON RATE CUT: "IN VIEW OF
CURRENT ECONOMIC CONDITIONS, BOJ DECIDED IT IS DESIRABLE TO
PROMOTE FURTHER DECLINE IN OVER-ALL INTEREST RATES IN ORDER
TO CONTRIBUTE TO STEADY ECONOMIC RECOVERY ALONG WITH FISCAL
MEASURES. BOJ WILL ALSO CONSIDER REDUCTION IN RESERVE
REQUIREMENTS. OF COURSE, PRICE STABILITY REMAINS AN
IMPORTANT OBJECTIVE AND BOJ WILL CONTINUE TO PAY ADEQUATE
ATTENTION ON FUTURE PRICE DEVELOPMENTS." FOLLOWING
TABLE SHOWS NEW BOJ RATE SCHEDULE, EFFECTIVE SEPT 5:

NEW RATE OLD RATE

(A) DISCOUNT RATE ON COMMERCIAL BILLS 4.25 5.0
AND INTEREST RATE ON LOANS SECURED BY
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GOJ BONDS, SPECIALLY DESIGNATED
SECURITIES, AND CERTAIN OTHER BILLS
ANALOGOUS TO COMMERCIAL BILLS
(B) INTEREST RATE ON LOANS SECURED BY 4.5 5.25
OTHER PAPER

9. THE PROCESS FOR CUTTING INTEREST RATES ON SAVINGS
ACCOUNTS HAS ALSO BEEN SET IN MOTION. REGARDING CHANGE IN
BANKS' SAVINGS RATES, BOJ POLICY BOARD RECEIVED A
PROPOSAL FROM THE FINANCE MINISTER SEPT 3, AND IMMEDIATELY
REFERRED THE PROPOSAL TO THE INTEREST ADJUSTMENT COUNCIL
FOR STUDY. DATE OF IMPLEMENTATION OF SAVING RATE CUT
HAS NOT YET FIRMED, BUT PRESS REPORTS INDICATE DELAY
UNTIL END OF SEPT OR EARLY OCT. SAVING AND DEPOSIT RATES
ARE EXPECTED TO BE LOWERED BY 0.5 PERCENTAGE POINTS,
BRINGING ONE-YEAR TIME DEPOSIT RATE TO 5.25 PERCENT PER
ANNUM. SAVING RATES FOR WELFARE PENSION RECEIVERS,
HOWEVER, WILL REMAIN UNCHANGED AT 6.75 PERCENT PER ANNUM
UNTIL APRIL 15 NEXT YEAR. POSTS AND TELECOMMUNICATIONS
MINISTER KOMIYAMA, ON THE OTHER HAND, AT PRESS CONFERENCE
SEPT 3, ASSURED PROMPT ACTION FOR POSTAL SAVING RATE CUT.

10. LOWER RESERVE REQUIREMENTS ARE BEING
CONSIDERED IN ORDER TO CURB DETERIORATION OF BANKS' PROFIT
POSITIONS, PARTICULARLY OF SMALL AND MEDIUM-SIZED BANKS,
DUE TO SAVINGS RATES BEING CUT LESS THAN CUT IN LENDING RATES.
ACCORDING TO PRESS REPORTS, RESERVE REQUIREMENT RATIOS
WILL BE LOWERED BY AROUND 0.25 PERCENTAGE POINTS AND

LIMIT ON DEPOSIT SIZE FOR BANKS THAT ARE
ELIGIBLE FOR LOWEST RATIO (0.25 PERCENT) WILL BE RAISED
FROM CURRENT 300 BIL YEN DEPOSITS OR LESS TO 500 BIL YEN
DEPOSITS OR LESS. THE LOWER RESERVE REQUIREMENTS ARE
EXPECTED TO TAKE EFFECT AROUND MID-SEPTEMBER.

11. FOLLOWING BOJ DISCOUNT RATE CUT, COMMERCIAL BANKS (CITY,
REGIONAL AND TRUST BANKS) ANNOUNCED SEPT 5 SAME 0.75
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PERCENTAGE POINT RATE CUT. SHORT-TERM PRIME LENDING
RATE WILL BE LOWERED TO 4.5 PERCENT PER ANNUM, EFFECTIVE SEPT 8.
CALL MONEY DEALERS ASSN ALSO ANNOUNCED SAME 0.75
PERCENTAGE POINT RATE CUT IN RESPONSE TO BOJ DISCOUNT
RATE CUT. AS A RESULT, CALL MONEY RATE (UNCONDITIONAL)
HAS BEEN REDUCED TO 4.875 PERCENT PER ANNUM AND BILL
DISCOUNT RATE DECLINED TO 5.25 PERCENT, EFFECTIVE SEPT 5.
BOJ AND GOJ ALSO DECIDED ON OCTOBER CUTS IN OVERALL
LONG-TERM INTEREST RATES, ACCORDING TO PRESS REPORTS.
MAGNITUDE OF THESE RATE CUTS HAS NOT YET FIRMED BUT PRESS
REPORTS SPECULATE 0.3 TO 0.5 PERCENTAGE POINT CUT FOR
BOND YIELDS. HOUSING LOANS RATES ARE ALSO EXPECTED TO BE
REDUCED BY AROUND 0.3 PERCENTAGE POINTS TO THE LEVEL OF 7
PERCENT PER ANNUM.

12. AT PRESS CONFERENCE AFTER ANNOUNCEMENT OF DISCOUNT RATE CUT
SEPT 3 BOJ GOV MORINAGA REPEATED HIS EARLIER COMMENTS ON YEN SHIFT
MOVEMENT. MORINAGA SAID "BOJ WELCOMES NATURAL SHIFT TOWARD YEN
FINANCING BUT IF YEN TEMPORARILY DETERIORATES EXCESSIVELY BOJ
IS PREPARED TO INTERVENE IN THE MARKET."

13. AS REPORTED IN TOKYO 13520 JAPAN'S REAL GNP (S.A.) ROSE 1.9
PERCENT IN THE SECOND QUARTER OF CY 1977. ABOUT HALF OF THE
INCREASE WAS DUE TO STRONG EXPANSION OF GOVERNMENT INVESTMENT
PROGRAMS, WITH INCREASE IN EXTERNAL SURPLUS MAKING ONLY SMALL
CONTRIBUTION TO GROWTH IN QUARTER.

14. OFFICIAL INTERNATIONAL RESERVES ROSE \$128 MIL DURING
AUGUST, STANDING AT \$17,767 AT MONTH END.
DURING THE MONTH THE JAPANESE CONTRIBUTED \$74 MIL TO THE IMF
UNDER THE GENERAL ARRANGEMENTS TO BORROW (GAB) TO FINANCE A
DRAWING ON THE IMF BY THE UNITED KINGDOM. BUT FOR THIS, THE
AUGUST RESERVE INCREASE WOULD HAVE BEEN LARGER, WITH OFFICIALS
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REPORTED IN PRESS AS ATTRIBUTING INCREASE CHIEFLY TO INTEREST

EARNINGS ON FOREX RESERVES AND PROCEEDS OF YEN SALES TO US FORCES
JAPAN. THE MINISTRY NOTED THAT LATTER SOURCE SHOULD DISAPPEAR,
BECAUSE YEN SALES TO US FORCES EXPECTED TO BE HANDLED BY COMMER-
CIAL BANKS BEGINNING THIS MONTH.
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